

Message Text

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PAGE 01 KARACH 01071 120205Z

70

ACTION NEA-16

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TO SECSTATE WASHDC 8092

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: KARACHI STOCK EXCHANGE AT STANDSTILL

SUMMARY: OWING DISSATISFACTION WITH GOP DELAYS IN COMPLETION
TRANSFER OF SHARES AND REIMBURSEMENT SHAREHOLDERS IN
CONNECTION WITH TAKE-OVER LAST OCTOBER OF SHARES 18
INDUSTRIES LISTED ON STOCK EXCHANGE, OPERATORS AND
AGENTS AT KARACHI STOCK EXCHANGE HAVE SINCE MAY 8
REFRAINED FROM ALL TRADING ACTIVITY. ALTHOUGH EXCHANGE
HAS REMAINED OPEN, NO TRANSACTIONS HAVE TAKEN PLACE.
END SUMMARY.

1. BROKER'S AGENTS AT KSE HAVE COME TO "STANDSTILL" AS
PROTEST AFTER SOME EIGHT MONTHS OF DELAY BY GOP IN
COMPLETING TRANSFER OF SHARES ON 18 FIRMS FROM
PRIVATE OWNERS TO GOP UNDER ECONOMIC REFORMS
ORDINANCE OF AUG. 31, 1973. (ORDINANCE AUTHORIZED
TRANSFER TO FEDERAL GOVERNMENT OF SHARES IN 32
INDUSTRIES, MANAGEMENT OF WHICH HAS BEEN TAKEN OVER
IN JANUARY 1972. EIGHTEEN OF THESE WERE LISTED ON
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PAGE 02 KARACH 01071 120205Z

STOCK EXCHANGE.) OPERATORS HAVE ALSO ALLEGED TO PRESS

THAT "UNSATISFACTORY WORKING RESULTS OF GOOD NUMBER OF THE REGULATED COMPANIES HAVE MISERABLY FAILED TO REDEEM THE PROMISES MADE AT TIME OF TAKE-OVER" AND THAT "INSTEAD OF APPOINTING PROFESSIONAL EXECUTIVES THE ADMINISTRATION OF THE TAKEN-OVER COMPANIES WAS ENTRUSTED TO CIVIL SERVICE BUREAUCRATS WHO KNEW NOTHING ABOUT INDUSTRY."

2. GOP INACTION OVER LAST EIGHT MONTHS HAS RESULTED IN BLOCKING OF INVESTOR'S FUNDS AND CONTRIBUTED TO STEADY DECLINE IN SHARE PRICES AND GENERAL DEMORALIZATION KSE. ALTHOUGH "STANDSTILL" ACTION OSTENSIBLY BEING TAKEN ONLY BY BROKER'S AGENTS ON FLOOR OF EXCHANGE, IT HAS TACIT APPROVAL STOCK EXCHANGE MEMBERS THEMSELVES AND NO DOUBT THAT OF BOARD OF DIRECTORS AS MEASURE TO CALL PUBLIC ATTENTION TO CONTINUING, HIGHLY UNSATISFACTORY SITUATION. KSE BOARD OF DIRECTORS, ACTING IN RESPONSE TO "STANDSTILL", HAVE PREPARED MEMORANDUM LISTING GRIEVANCES AND REQUESTING REMEDIES WHICH WILL BE PASSED TO MINFINANCE MUBASHIR HASAN. DEPUTATION FROM KSE ALSO REPORTED PLANNING CALL ON PM BHUTTO TO APPRISE HIM OF SITUATION ARISING OUT OF CONTINUOUS RECESSION IN COUNTRY'S BIGGEST STOCK MARKET.

3. STOCK MARKET TROUBLES HAVE BEEN COVERED SYMPATHETICALLY IN KARACHI PRESS WITH ACCENT ON INJURY TO SMALL INVESTORS WHO HAVE YET RECEIVED NO COMPENSATION FROM GOP FOR THEIR TAKE-OVER SHARES. SECRETARY KSE INFORMED CONSUL IN CHARGE ON MAY 9 THAT AGGREGATE CAPITAL EROSION OF SHARES TRADED ON KSE OVER LAST EIGHT MONTHS, SINCE SEPTEMBER 1, 1973, ANNOUNCEMENT OF PLANS FOR SHARE TAKE-OVER, AMOUNTED TO SOME 100 CRORES OF RUPEES (\$100 MILLION), AND THAT KSE HOPEFUL SOME RECOGNITION WILL BE TAKEN BY GOP OF PRESENT DEMORALIZED CONDITION OF EXCHANGE.

COMMENT: ALTHOUGH ALLEGED POOR RESULTS OF TAKEN-OVER COMPANIES ARE DIFFICULT TO PROVE OR DISPROVE AND COMMENTS ON POOR QUALITY NEW EXECUTIVES SEEMS EXAGGERATED, STANDSTILL ON KSE APPEARS AMPLY JUSTIFIED BY LIMITED OFFICIAL USE

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PAGE 03 KARACH 01071 120205Z

UNWARRANTED DELAYS ON PART OF GOP IN COMPLETING STOCK TRANSFERS AND COMPENSATING FORMER STOCK HOLDERS. GOP INACTION OVER MANY MONTHS IN FACT WOULD SEEM INDICATE ITS NEAR TOTAL DISINTEREST IN KSE AS MEDIUM FOR MARSHALLING FURTHER PRIVATE SAVINGS OR AS EFFECTIVE INSTRUMENT IN FINANCIAL SECTOR OF ECONOMY. WHETHER MIN FINANCE MUBASHIR HASAN WILL BE PERSUADED BY PRESENT ACTION AND RESULTING PUBLICITY TO TAKE ANY REMEDIAL ACTION, REMAINS UNCERTAIN. WHATEVER ACTION MAY BE TAKEN,

HOWEVER, IT SEEMS UNLIKELY THAT KARACHI STOCK MARKET UNDER
UNSYMPATHETIC INFLUENCE MINFINANCE HASAN, WILL EVER RECOVER
IMPORTANCE AND VIGOR IT ONCE HAD. PREFERENCE HASAN FOR FUNNELING
PRIVATE SAVINGS INTO PUBLIC SECTOR INDUSTRIES THROUGH ORGAN-
ISMS SUCH AS NEW NATIONAL DEVELOPMENT FINANCE CORPORATION
SEEMS UNMISTAKABLE.
BRYANT

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